

BELARUSIAN MONTHLY ECONOMIC REVIEW



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- New trends in Belarus-Russia relations.
- Financial results of the enterprises worsen.
- Belarus keeps on external borrowings.
- Decrease of the consolidated revenues.

Politics: New trends in Belarus-Russia relations

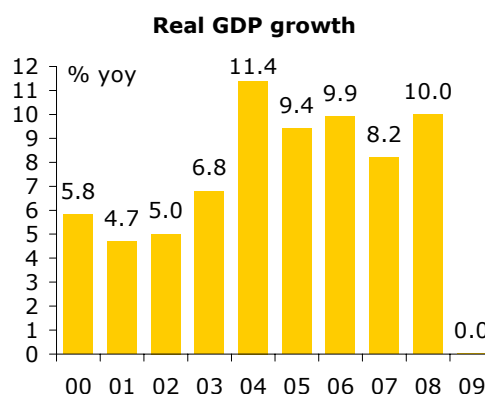
In May, a session of the Council of Ministers of the Union state of Belarus and Russia took place. For the Belarusian side the access of the Belarusian commodities at the Russian market and obtaining the last tranche of the Russian loan of USD 500 m were the issues of priority interest. For the Russian side the issue of access to the privatisation to the Belarusian milk-processing enterprises was the key one. The parties failed to find a compromise on these issues, which resulted in a series of slashing statements by each of them. Later on, the Russian side prohibited the supply of the Belarusian milk products to its market, officially explaining it by the violation of the sanitary and epidemiological norms. The tensions between parties were mitigated during the session of the EvrAzES council in the beginning of June. The member countries established an anti-crisis fund of USD 10 bn and Russian Minister of Finance A. Kudrin stated that it might be a source for providing the argued tranche of USD 500 m to Belarus. However, the main outcome of the sitting was the agreement of Belarus, Russia and Kazakhstan to start the functioning of the custom union among them starting from January 1st, 2010. Furthermore, Russian Prime-Minister V. Putin stated that the countries are going to quit from the national negotiations on joining the WTO and are going to join it as the entire custom union. The latter is still rather doubtful, while, for instance, the chair of the WTO P. Lamy expressed his anxiety about this decision of the countries and admitted absence of such precedents. Furthermore, this step means postponing for an unspecified period of time joining the WTO for Russia and Kazakhstan that are rather close to finishing their negotiations, which is rather ambiguous for them from an economic point of view. For Belarus, this format of WTO negotiations might be desirable economically, but political tensions with Russia may hamper this scenario. For instance, in the middle of June Belarus ignored the session of the Organization of Agreement of Collective Defense, protesting against Russia's measures against its supply of milk products. At the moment the political relationships between Belarus and Russia seem to be at the crossroads, and the future of these relationships is rather unclear.

Real sector: Financial results of the enterprises worsen

In Jan-Apr, real GDP grew by 1.2% yoy that is by 0.1 percentage points more than in the 1st quarter. Agriculture (grew by 6.6% yoy) and trade and catering (grew by 5.5% yoy) became the "drivers" of the growth. In industry, the output dropped by 3.6% yoy, while the transport branch shrank by 16.2% yoy. The depth of the fall in industry did not correspond to the extent of the demand fall on the Belarusian goods. It resulted in the growth of the inventories by BYR 2.1 trn in Jan-Apr (5.5% of the output during this period.)

At the background of the positive growth rates, the financial results of the enterprises were deteriorating. The decrease of the net profits in Jan-Mar amounted to 37.8% yoy, while in industry separately it was 65.9% yoy. This considerable drop of profits undermines investment opportunities of the enterprises and leads to the decrease of the consolidated revenues, which might restrict the possibilities of stimulating economic growth.

Population: 9.67 m
Industry / GDP: 28.1%
Agriculture / GDP: 8.4%
Investment / GDP: 27.9%
Export destination: Russia 32%, EU 44%
Import origin: Russia 60%, EU 22%



Source: Ministry of Statistics and Analysis. Forecast for 2009: IPM Research Center.

IPM Research Center

German Economic Team
in Belarus

505 Zakharova St., Minsk 220088, Belarus
Tel./fax (+375 17) 210 0105
E-mail: bmer@research.by
Internet <http://research.by/>

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Structural trends: Belarus keeps on external borrowings

In May, A. Lukashenka informed that he had refused to sell Gomel chemical plant to the Russian group "Eurohim" for USD 111 m, while he considered this price to be a "junk" one. Such a position and restricted access to private foreign borrowing determines the choice of the external public borrowing as the main tool for the deficit financing. For using it, the limit of the external debt for 2009 was increased by 33% up to USD 8 bn. In June the press-release of the IMF mission was published, which suggest increasing loan from the IMF by SDR 651.4 m (about USD 1 bn). In case Belarus obtains the increased loan from the IMF, the last tranche from Russia and USD 125 m from the IBRD, then by the end of the 1st quarter of 2010 the external public debt will amount about 15-16% from GDP. This level of the external public debt is not a big threat from the fiscal point of view. But if the problem of the external deficit hasn't been solved, the currency risks will be accumulating in the Belarusian economy. It may sharpen the problem of debt repayment for the budget and worsen repayment of private borrowings.

Unfavorable tendencies are taking place in the energy sphere. Russia is trying to reduce the negotiating power of Belarus through realizing the projects of constructing gas and oil pipelines bypassing Belarus. For instance, in June they informed about the beginning of the construction of the second part of the oil pipeline "BTS-2", which may be a partial alternative to the pipeline "Druzhba". Besides, the parties still cannot agree on the mechanism oil duties division and the value of tariffs for oil transportation after 2010. Belarusian government considers the construction of a nuclear power-station as the core measure of the strategic energy safety. For this purpose, they applied for a loan of USD 9 bn from Russia, whose company is going to construct the station. However, both economic expediency of the project and expediency of such borrowings from Russia still seem to be ambiguous.

Foreign trade: Protectionist measures by Russia

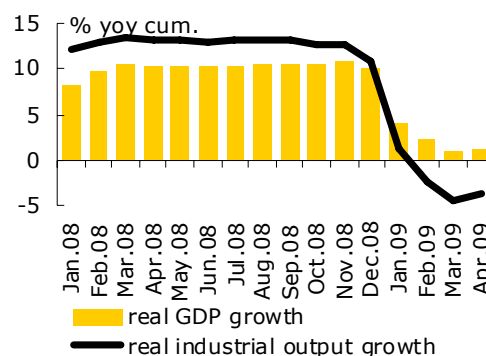
In Jan-Mar the deficit of merchandise trade amounted to USD 1.9 bn, having increased by 2.5 times yoy. In comparison to GDP the deficit reached 17.8%. In trade with Russia the deficit decreased by 33% yoy, but the surplus in trade with non-CIS countries dropped by 94% yoy. This difference in trade dynamics was mainly determined by the dynamics of the energy resources prices. However, in trade with non-CIS countries other negative trends took place. The value of supply of potash fertilizers fell by 2.7 times yoy, of ferrous metals – by 48% yoy. Overall in trade with non-CIS countries the average prices of exports decreased by 34.4%, while the physical volume – by 21.1% yoy. The decrease of the average imports prices and physical volumes was much less – by 1.5 and 11.9% yoy correspondingly.

In trade with Russia, the drop of imports physical volume (by 17.8% yoy) was considerably less than those of exports (by 32.8% yoy) as well. It was consequent to the decrease of the demand at the Russian market. At the same time, Belarusian enterprises kept on rather high level of output due to increasing inventories and for this kept on importing intermediary goods from Russia. Belarusian authorities hope for a prompt recovering of the external demand. But it should be mentioned that Russian protectionist measures in regard to Belarusian industrial and food products create additional barriers for the Belarusian exports and its perspectives.

Public finance: Decrease of the consolidated revenues

Consolidated revenues kept on falling and in 1st quarter of

GDP and Industrial Output



Source: National Statistical Committee.

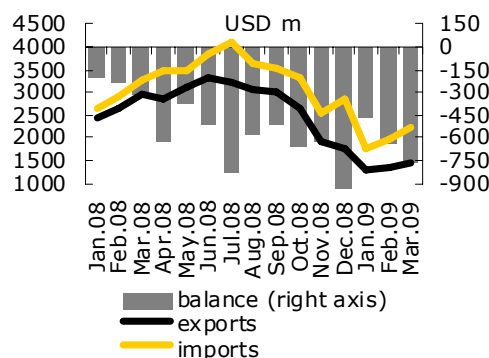
Net profit by in the branches of industry

Jan-Mar 2009	BYR bn	% yoy*
Industry, total	746.2	-65.9
Electric power	99.3	45.1
Fuel	142.2	-64.1
Ferrous metallurgy	59.4	-63.0
Chemical and petrochemical industry	302.7	-55.8
Machinery and metalworking:	127.6	-74.5
Electro technical industry	7.4	-82.9
Machine building and instruments	1.5	-61.9
Auto industry	2.9	-98.1
Tractor building and agricultural machinery	29.7	-79.0
Logging, woodworking, pulp and paper	7.5	-89.1
Building materials	40.4	-0.5
Light	7.6	-74.1
Food	-69.4	--
Economy, overall	2159.0	-37.8

* growth rate in nominal terms.

Source: National Statistical Committee.

Merchandise Trade



Source: National Statistical Committee.

2009 amounted to 46.5% of GDP, which is 7.7 percentage points less than in previous year (6.3 percentage points in Jan-Feb). Consolidated expenditures in the 1st quarter amounted to 44.4% of GDP, which by 1.3 percentage points less than in the previous year. Finally, the budget surplus in the 1st quarter amounted to 2.1 of GDP (8.5% in the 1st quarter of 2008).

According to the President's Edict consolidated revenues and expenditures were set at the level of BYR 54.9 trn. De-facto the budget sequestration by BYR 11 trn (de-jure by BYR 2.8 trn) took place. It is supposed that in case of favorable economic situation, the consolidated revenues will reach the level of BYR 54.9 trn. In that case, BYR 8.2 trn will be placed at the President's reserve fund. The sequestration of the budget touched provision of subsidies to the oil-refiners (by about BYR 4.3 trn), expenditures of the social security fund (BYR 1.5 trn) and financing of state programs (BYR 1.3 trn). Thus, during the crisis the possibilities of fiscal stimulating of the domestic demand are substantially restricted.

Monetary policy: Deceleration of crediting

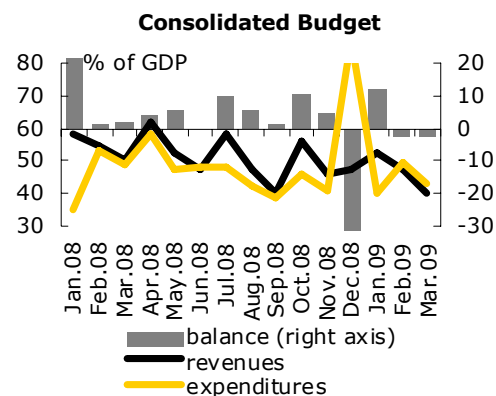
In April, net foreign assets of the monetary authorities shrank by 10.8% mom (by USD 419.1 m). However, money supply was expanded due to the withdrawal of the government's ruble deposits at the NBB (decline by 36.7% mom) and refinancing of banks (increase by 23.2% mom). Finally, base money grew in April by 10.3% mom, while in annual terms it dropped by 3.6% yoy (14.2% yoy in March).

Despite liquidity injections, crediting of the real sector was still declining, because banks still felt lack of resources. Hence, claims on real sector by banks increased by 1.3% mom, while declined in annual terms by 5.1 percentage points down to 54.0% yoy. Deposits of juridical persons were falling because a huge part of their working capital is concentrated in inventories. Feeling this lack of liquidity banks kept high interest rates in national currency, trying to attract households' deposits. However, interest rates in hard currency were reduced according to the recommendation by the NBB. In this situation, households were still passive in depositing, while the cash in circulation was growing. Finally, ruble money grew by 1.9% mom, while dropped by 2.2% yoy (growth of 1.2% yoy in March) in annual terms. Broad money grew by 1.0% mom and in annual terms by 23.4% yoy (27.3% yoy in March).

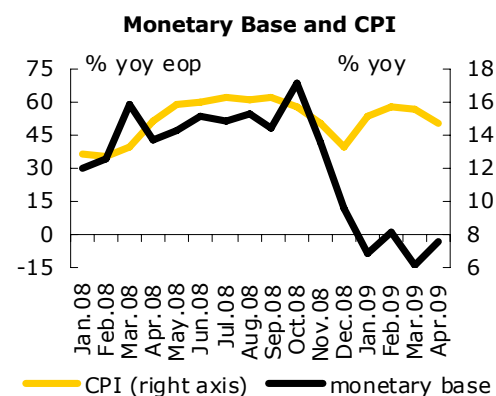
Consumer prices in April grew by 0.4% mom and in annual terms inflation decreased down to 14.7 yoy (15.5% yoy in March). The Belarusian ruble was appreciated by 2.0% through April-May against US dollar, being within the target corridor of the NBB currency basket. As of May 31, its exchange rate was 2780 USD/BYR.

Banking sector: Stimulating the economy through privileged loans for construction

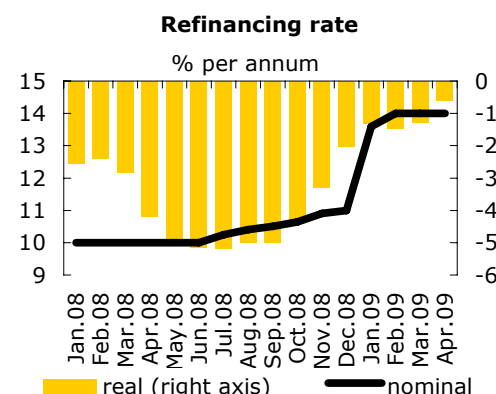
In June a President's Edict was signed, according to which the interest rates on privileged loans for construction of accommodation for families with more than two children was reduced from 3 to 1% annually. These loans are provided by Belarusbank, while the difference in interest rates is compensated by the budget. Before in May, Minsk local government agreed with Belarusbank a new mechanism of provision privileged loans in the capital. This mechanism substantially expands the access to privileged loans by households. Thus authorities seem to stimulate house-investment demand and construction branch in the economy. From the view of the whole economy, this measure may be effective for stimulating growth. However, it may lead to worsening situation with liquidity of Belarusbank, whose stance is extremely important for the whole banking system.



Source: calculations based on the National Statistical Committee data.



Source: calculations based on the National Statistical Committee and the NBB data.



Source: calculations based on National Statistical Committee and the NBB data.

Economic Trends		Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Feb 09	Mar 09	Apr. 09
GDP growth	% yoy	8.9	8.4	7.3	10.9	10.1	11.2	7.5	1.1	--	--	--
GDP growth	% yoy cum.	8.6	8.4	8.2	10.9	10.4	10.7	10.0	1.1	2.3	1.1	1.2
Industrial Production	% yoy cum.	7.7	8.2	8.5	14.7	13.0	13.1	10.8	-4.5	-2.3	-4.5	-3.6
Agricultural Production	% yoy cum.	5.2	5.6	4.1	6.8	5.4	6.9	8.9	6.3	6.2	6.3	6.6
CPI	% yoy eop	7.2	9.0	12.1	13.2	16.0	16.3	13.3	15.5	15.7	15.5	14.7
PPI	% yoy eop	13.6	16.8	17.1	13.5	16.2	18.5	14.2	21.4	21.4	21.4	19.2
Merchandise export (USD)*	% yoy	23.3	18.5	44.4	69.2	56.0	44.9	-11.6	-48.8	-49.7	-50.0	--
Merchandise import (USD)*	% yoy	23.7	23.8	42.4	56.5	55.3	53.1	-1.5	-31.9	-31.4	-31.5	--
Merchandise trade balance (NBB data)	USD m cum.	-1563	-2304	-3858	-647	-2049	-3835	-6104	-1780	-1049	-1783	-2520
Current account	USD m cum.	-1152	-1652	-2944	-433	-1411	-2920	-5049	--	--	--	--
Current account	% GDP cum	-5.8	-5.1	-6.6	-3.6	-5.5	-6.6	-8.0	--	--	--	--
International reserves	USD m eop	2344	2155	4182	4746	4618	4120	3061	3955	3327	3955	3565
Monetary base	% yoy eop	29	25	38	59	54	48	12	-14.2	0.4	-14.2	-3.6
Lending rate**	% p.a. aop	11	12	12	11	10	11	14	17	18	16	16
Exchange rate (official)	USD aop	2145	2147	2152	2148	2136	2114	2147	2772	2807	2845	2829
Exchange rate (official)	EUR aop	2890	2948	3115	3215	3339	3183	2827	3614	3595	3704	3732

* Growth rates in value terms (source: Ministry of Statistics and Analysis).

** Nominal rate of commercial banks for new loans for legal entities in national currency.

Sources: Ministry of Statistics and Analysis, NBB.

Key Economic Indicators		2002	2003	2004	2005	2006	2007	2008
Nominal GDP*	BYR trn	26.613	36.565	49.991	65.067	79.231	97.165	128.828
Nominal GDP**	USD bn	14.5	17.7	23.1	30.2	36.9	45.2	60.3
GDP Growth	% yoy	5.0	7.0	11.4	9.4	9.9	8.6	10.0
Industrial production	% yoy	4.5	7.1	15.9	10.5	11.3	8.5	10.8
Agricultural production	% yoy	0.7	6.6	12.6	1.7	6.1	4.1	8.9
CPI	% yoy aop	42.6	28.4	18.1	10.3	7.0	8.4	14.8
CPI	% yoy eop	34.8	25.4	14.4	8.0	6.6	12.1	13.3
PPI	% yoy aop	41.4	37.5	24.1	12.1	8.3	16.2	15.6
PPI	% yoy eop	42.7	28.1	18.8	10.0	8.5	17.1	14.2
Exports (gs, USD)	% yoy	9.8	24.4	35.7	15.8	21.8	24.3	35.5
Imports (gs, USD)	% yoy	9.0	25.1	40.3	3.0	33.0	27.9	37.6
Current account	USD m	-311	-424	-1206	510	-1512	-2944	-5049
Current account	% GDP	-2.1	-2.4	-5.2	1.7	-4.1	-6.6	-8.0
FDI (net)	USD m	453	170	163	303	351	1770	2143
International reserves	USD m	457	474	770	1297	1383	4182	3467
Fiscal balance	% GDP	-0.2	-1.6	0.0	-0.6	2.2	0.6	0.9
Domestic public debt	% GDP eop	5.4	5.5	5.7	5.8	6.5	6.4	6.7
External debt (total)	% GDP eop	27.0	23.7	21.4	17.9	18.6	28.4	24.6
Monetary base	% yoy eop	32	50	42	74	20	38	12
Exchange rate (official)*	USD aop	1784	2075	2160	2154	2145	2146	2136
Exchange rate (official)*	USD eop	1920	2156	2170	2152	2140	2150	2200
Exchange rate (official)*	EUR aop	1690	2353	2684	2681	2692	2937	3135
Exchange rate (official)*	EUR eop	1989	2695	2956	2550	2817	3167	3077

* On January 1, 2000 the Belarusian ruble was denominated 1:1000. All figures for 1999 are given in 'new' Belarusian rubles.

** For the period of 1999–2000, GDP in USD is calculated by using the market (unofficial) exchange rate (source: IPM Research Center).

Sources: National Statistical Committee, Ministry of Finance, NBB, IPM Research Center.

Notes:

aop	average of period	gs	goods and services
avg	average	trn	trillion
bn	Billion	NBB	National Bank of Belarus
cum.	cumulative	p.a.	per annum
eop	end of period	yoy	year-on-year
m	million	ytd	year-to-date